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C O N F I D E N T I A L SECTION 01 OF 02 PRETORIA 000774

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TAGS: [ECON](#) [ETRD](#) [EINV](#) [RS](#) [SF](#)
SUBJECT: SOUTH AFRICA-RUSSIAN TRADE: ROOM FOR EXPANSION

REF: A. 07 PRETORIA 003772
[B](#). 08 PRETORIA 00589
[C](#). 07 PRETORIA 00554
[D](#). 07 PRETORIA 00569

Classified By: Ambassador Bost for reasons 1.4(b) and (d)

[1](#). (U) Summary. Russia and South Africa have identified each other as important emerging economies, but bilateral trade flows remain minimal. Foreign direct investment between the two countries lingers behind South Africa's other major economic partners. South Africa has shifted its trade diplomacy towards South-South relations and Russia remains dedicated to its neighbors in the Commonwealth of Independent States. Russia is part of South Africa's push to deepen ties with the BRIC (Brazil, Russia, India and China) countries, but South Africa will remain focused on India and Brazil, as part of the IBSA forum, and on China, as South Africa's most rapidly growing economic partner. End Summary.

TRADE GROWING, BUT STILL SMALL

[2](#). (U) South African Department of Trade and Industry (DTI) Deputy Minister Rob Davies recently stated that South Africa wants to diversify its trade partners and increase South-South trade, particularly trade with the BRIC countries (Brazil, Russia, India and China). Russia and South Africa have identified each other as important emerging economies, and the two countries have made persistent efforts to establish stronger economic ties since 2005. This has been accomplished through high level visits (including President Putin's visit to South Africa in September 2006), trade shows in Moscow and Johannesburg, establishment of the Joint South Africa-Russia Business Council in 2005, and annual meetings of the Inter-sessional Intergovernmental Trade and Economic Committee (ITEC). Nevertheless, bilateral trade flows are still minimal, despite growth in recent years.

[3](#). (U) According to DTI data, Russia still constitutes a small percentage of South Africa's total trade. It ranks as South Africa's 50th trading partner for exports and 34th for imports. Trade with Russia constitutes only 0.2 percent of South Africa's total exports, and 0.8 percent of its total imports. Trade between the two countries over the last five years was as follows (figures in million USD):

	South Africa/Russia Trade				
	2003	2004	2005	2006	2007
	(Jan-Nov)				
SA Exports	85	89	64	96	143
SA Imports	39	36	89	269	558
Total Trade	124	125	153	365	701
Trade Balance	46	53	-25	-173	-415

[4](#). (U) The recent growth is attributable to increases in

commodity prices, which constitute a large percentage of imports and exports, as well as Russia's increasing consumer demand for fresh vegetables and fruit. DTI data shows that exports from January through November grew over the same period last year by 63.5 percent and imports by 126.7 percent.

15. (U) Exports to Russia consist mainly of vegetable products (50 percent), base metals (13 percent), and machinery and mechanical appliances (11 percent). Imports are dominated by mineral products, mostly the nickel group of minerals, accounting for 78 percent of South African imports from Russia. Base metals and precious stones are 19 percent of imports.

16. (C) According to Russian Economic Counselor Yury Voinov, Russia is trying to diversify its export basket, but the geographical distance between the two countries and high Qgeographical distance between the two countries and high transportation costs make trade of many products, such as petroleum, cost-prohibitive. In addition, Russia's attempt to enter the South African vehicle market with commercial vehicles ended in failure two years after inception due to mechanical failures and non-compliant safety features for the new 2008 taxi laws. DTI Acting Europe Desk Manager Cobs Pillay told Trade and Investment Officer that South Africa is focused on its South-South trade partners, such as India and China, which it believes have more potential than Russia. According to Pillay, the ITEC forum, which was designed to improve trade relations, is an arena for high-level discussion, but little action, and the South Africa-Russia Business Council has not yet been effective at increasing trade and investment. Voinov informed Trade and Investment Officer that the Business Council "has been difficult." He explained that while the Russian side of the council is ready

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to proceed, the South African side has not nominated a chair -- resulting in a still-born Council.

SOUTH AFRICA/RUSSIA INVESTMENT LIMITED

17. (C) Foreign direct investment between the two countries also lingers behind South Africa's other major economic partners, despite continuing talks between high-level government officials. Voinov estimated that there are only 10 Russian investors in South Africa, most in the minerals and energy sector. Voinov said Russian mineral and energy companies are keeping a close watch on South Africa opportunities, and have offered support to assist with South Africa's energy crisis. Russian companies active in the South African market include Norilsk Nickel, Aton Capital, Colliers International, Rusimport, Morport, and Lukoil. One of the largest investments and the "flagship project", according to Voinov, is the partnership between Renova, a prominent Russian asset management company, and South African Black Economic Empowerment groups, which have formed United Manganese of Kalahari (UMK) to prospect, mine, and process manganese ore in the Kalahari basin. Renova holds a 48 percent share in UMK, which was issued a mining license in February. UMK represents a USD 100 million investment, and could increase to a much larger value as the project is implemented.

18. (C) According to Voinov, Russian investors are mainly interested in neighboring countries in the Commonwealth of Independent States. "South Africa is important, but not our priority," he said. Moreover, the level of crime and the energy shortages in South Africa are likely to discourage future investment. A 53 percent increase in power prices proposed by South African state utility company Eskom, "will impact heavily on Russian business interests."

19. (C) South African investment in Russia is dominated by a

handful of multinationals, including AngloAmerican, Standard Bank, De Beers, JCI, and Barloworld. SAB Miller has announced the construction of a USD 170 million brewery in Ulyanovsk, which will be operational in 2009 and complement the company's existing brewery near Moscow. SAB Miller produces several Russian brands, including three of the top ten. Protea Hotels and Sun International also have a growing presence in Russia. Despite the visibility of these relatively high-profile companies, Voinov noted that Russian investment in South Africa is still larger than South Africa's investment in Russia.

COMMENT

¶10. (U) South Africa is actively pursuing stronger economic relations with its Southern partners as part of its move to promote South-South cooperation. Russia is part of South Africa's push toward the BRIC countries, but South Africa will remain focused on India and Brazil, as part of the IBSA forum (Refs A and B), and on China, as South Africa's most rapidly growing economic partner (Refs C and D).
BOST